

Exhibit C
ERNST & YOUNG LLP Letter

August 23, 2004

Ms. Carol Sigmann
Executive Officer
California Board of Accountancy
2000 Evergreen Street
Suite 250
Sacramento, California 95815-3832

*In the matter of Ernst & Young LLP,
Case No. AC-2004-34*

Dear Ms. Sigmann:

In connection with the resolution between Ernst & Young LLP and the California Board of Accountancy of the above referenced proceeding, Ernst & Young wishes to describe various mitigating and other relevant factors and information relating to such settlement.

Mitigating, Existing Discipline and Other Factors and Information

First, we wish to emphasize that no one, at the SEC or elsewhere, has ever challenged Ernst & Young's audit work for PeopleSoft or contended that any of the PeopleSoft financial statements upon which Ernst & Young reported were materially misstated. In short, there was no consumer or investor harm such as inflated stock price and the like and no "audit failure" as in other recent situations reported by the public press.

Second, we explained that in 2000 Ernst & Young sold its consulting practice to Cap Gemini, an important factor given that group's central role in the SEC's charges of impermissible business relationships and the ALJ's eventual decision. That spin-off serves to eliminate concern over any repetition of the PeopleSoft situation.

Third, in the joint discussions with the staff we tried very hard to develop a resolution that would have long term benefit for all licensees and consumers in California and define and implement the Board's regulatory mission of enhancing the quality of services provided by licensees to California consumers. We believe the settlement terms do that as has never been done before and put the Board in the forefront of the new era of professional regulation.

Fourth, the public record evidences the substantial discipline already imposed on Ernst & Young by the SEC.

- A six-month suspension on accepting engagements for new SEC audit clients.

- The appointment of an independent consultant to review the firm's independence policies and procedures.

Disgorgement of \$1.7 million in audit fees, plus interest.

A cease-and-desist order.

The sanctions are strong medicine. Ernst & Young chose not to fight them nor appeal the decision, because that would not be the right thing to do. We accepted the tough sanctions and pledged to work cooperatively with the SEC in implementing them. We see this as an opportunity to ensure that we have in place approved independence policies and procedures that investors, regulators, and clients can respect, trust, and rely on.

Lastly, we urge you to focus on the changed environment within Ernst & Young apart from the sale of the consulting practice. As we explained, the SEC Order in the PeopleSoft matter involves the time period 1994 through 1999. It thus takes no account of the independence standards and system of controls and procedures that we have instituted since 2000, and which we continue to enhance. These substantive and significant improvements and changes are summarized below.

Most importantly, our policies and procedures regarding business relationships with audit clients have been significantly revised. For example, in 2003 we issued a new policy requiring partners to communicate defined business relationships with audit clients to the audit committee and reviewed all business contracts over \$50,000 with audit clients for independence considerations. In March 2004, our new procurement policy was issued, including revised approval requirements in the event we award contracts to audit clients. The policy also requires written confirmation from our clients that contracts do not include below-market pricing or special terms and that E&Y is treated as "a consumer in the ordinary course of business." Just a few months ago in April 2004, E&Y issued a new alliances policy regarding the process for creating business alliances and other strategic relationships that requires extensive review by our Alliance Review Committee and approval by the Americas Executive Board. Of course, we will update our independence policies and procedures to comply with any recommendations of the independent consultant engaged in accordance with the SEC Order.

We also increased our oversight of independence issues. Most recently, in the spring of 2004, we appointed a new independence director. Even before that, however, we had implemented other changes. In December 2002, the Transition Oversight Staff, commissioned by the SEC, completed a review of our independence policies and procedures, and E&Y implemented changes related to its significant findings. In 2003, we implemented a consultation database to enhance our documentation and facilitate consistent application of policies and procedures, and established an Ethics Oversight Team, which reviews and acts on the results of all independence

compliance audits and confirms and recommends changes to our policies to the Americas Executive Board. In 2003, we initiated an annual internal review of all services offered within AABS, Tax and TAS for compliance with new SEC guidelines and firm strategy.

We have also instituted additional controls at the individual partner and account level. This year we initiated requiring all partners on individual accounts to sign a confirmation about their compliance with scope of services pre-approval requirements, which will be randomly tested. Additionally, a special review to identify any possible proscribed services violations will be conducted. As previously mentioned, all account partners also received our new policies regarding business relationships with clients. Finally, our internal policy with respect to client entertainment activities was further formalized and is pending issuance.

We also have improved formal training and internal communications on auditor independence issues. Beginning in 2001, all client-serving individuals were required to complete an independence refresher course. In 2003, the course was updated and enhanced to include a testing certification component. All US client-serving individuals and all global partners were required to complete this revised course.

Starting this year our independence training will include enhanced learning related to business relationships and the SEC Order. This training will again be mandatory for all US client-serving individuals and global partners, and it will be expanded to include selected US support functions including the strategic sourcing (procurement/purchasing) department. Since 2003, all employees have been required to read and confirm their compliance annually with the Firm's Code of Conduct which highlights the importance of maintaining our objectivity and independence. Finally, a systematic program of ongoing communication was instituted this year to promote awareness of independence matters, including periodic policy statements and articles distributed by internal daily e mail.

We also recognize the importance of independently verifying voluntary compliance and self-reporting of independence issues by our personnel. Internal Audit now performs independence compliance audits of a random sample of professionals and partners and selected other individuals on a case by case basis. All partners through managers now are required to sign a quarterly independence confirmation in addition to the annual independence confirmation and exception reporting was instituted to compare time charged on audit engagements to employee and partner-listed security holdings and loans to identify possible covered person violations.

We believe strongly that our independence tone "starts at the top." Accordingly, Internal Audit performs independence compliance audits of new members of the Americas Executive Board in the initial year of election, and audits each Americas

Executive Board member every three years. Internal Audit will also perform independence compliance audits for all newly promoted partners in the year of promotion, all direct admit partners, and all business unit leaders every three years.

Finally, our partner goals, evaluations, and compensation processes have been revised to reflect our independence changes. Now performance evaluation processes for audit partners focus on audit quality and eliminate any measures related to the sale of tax and other services to their audit clients. We also eliminated the “client portfolio” measurement for evaluating audit partners, narrowing the measurement to audit and audit-related services only. Our top national technical partner assigned to each of our geographic areas completes a technical evaluation of all area resident audit partners annually.

The Independent Transition Oversight Staff’s Report on Ernst & Young’s Independence Systems

We also point out that the Board can take considerable comfort from the fact there is objective third party evidence that the post 1994-99 independence systems at Ernst & Young have been substantially revamped and fully meet the requirements of all applicable independence rules.

In 2002 the SEC sanctioned a review by the Transition Oversight Staff of the independence systems of several major firms, including Ernst & Young. (Securities and Exchange Commission News Release, “SEC Announces Final Plans for Completing Reviews of Auditor Independence Systems and Controls,” Issue No. 2002-53, Mar. 19, 2002). The Commission asked that the TOS report provide an “evaluation of whether the firms’ independence systems provide reasonable assurance that the firms comply with the independence rules.” *Id.* The Report also was intended to identify “any deficiencies in those systems.” *Id.* In addition, “because of heightened concerns arising from certain publicly reported alleged violations of the Independence Rules that came to the TOS’s attention during its reviews of the Firms, the TOS developed “an eleventh element – Systems and Controls relating to business relationships and alliances, commissions, and contingent fees” and “expanded planned tests of the design, implementation, and operating effectiveness of Systems and Controls that addressed the Independence Rules applicable to that element.” Thus, the TOS review included a focus on independence issues across the board as well as the specific aspect of independence involving business relationships with audit clients.

The SEC agreed that the TOS review would be conducted by teams with expertise in auditor independence issues and that Donald J. Kirk, a former Chairman of the Financial Accounting Standards Board, “would serve as the Independent Reporter to oversee the TOS’s activities in connection with the Reviews” and would report on “whether the process followed by the TOS . . . was properly designed and performed

and whether [the results] of the Reviews have been appropriately assessed and reported by the TOS.” See the Memorandum of Understanding with the SEC dated April 12, 2002 at www.oversightstaff.org.

Based on its examination, the TOS concluded that, *inter alia*, Ernst & Young had “committed significant financial and personnel resources to develop, maintain, and enhance Systems and Controls consisting of the eleven elements” examined by the TOS. The TOS also concluded that E&Y’s

Systems and Controls, taken as a whole, developed for compliance with the Independence Rules . . . were effectively designed and implemented as of June 30, 2001 and operated effectively during the six months ended December 31, 2001 to provide [the] Firm with reasonable assurance of complying with the Independence Rules during that period.

Id.

In addition to the overall conclusion that Ernst & Young’s Systems and Controls for dealing with independence were effectively designed and implemented, and operated effectively during the period June 30, 2001 – December 31, 2001, the TOS reached conclusions with respect to particular aspects of E&Y’s independence policies and procedures that are relevant. Specifically, the TOS made the following findings:

a. With respect to element 1, “Written Independence Policies and Procedures,” the TOS concluded that:

Ernst & Young “ha[d] developed comprehensive, clearly written independence policies and procedures” that covered “all aspects of independence, including . . . business relationships with clients.” *Id.*

- Each firm, including E&Y, “makes its independence policies and procedures available electronically to each professional in the Firm on a timely basis” and “[c]hanges to those policies and procedures that are required by changes in the Independence Rules also are made and communicated electronically on a timely basis.” *Id.*

Each firm, including E&Y, “has procedures in place at the engagement level to address the consideration of independence matters during the course of the engagement.” *Id.*

b. With respect to element 3, “Independence Training,” the TOS concluded that:

E&Y, like the other firms, has “training courses on independence matters, all of which are delivered or deliverable in electronic form, that all partners and other professionals are required to take,” *id.*;

E&Y, like the other firms, “has tracking, monitoring, and follow-up procedures designed to assure that all professionals required to take a course have done so,” *id.*; and

E&Y, like other firms, also provides independence training as part of other training course directed at specific groups of professionals. *Id.*

c. With respect to element 4, “Internal Monitoring of Independence Systems and Controls,” the TOS concluded that:

- E&Y had “well-developed policies and procedures for conducting comprehensive inspections of compliance with the Firm’s policies and procedures to help ensure compliance with the Independence Rules,” *id.*;
- These inspections occurred “at four levels: the national office level, the audit engagement level, the office level, and the international level,” *id.*;
- Among the items covered in the inspections and on the review questionnaires was “whether consultation advice was sought on independence issues and, if so, the adequacy of the advice provided,” *id.*;
- “E&Y inspectors ascertain through inquiry whether there was a business alliance or proposed cooperative arrangement with the audit client and, if so, determine whether the required Firm approvals were obtained,” *id.*; and

“The annual inspection process entails a major effort. The number of offices visited by inspectors of each Firm in 2002 averaged approximately 25 and the number of engagements inspected averaged 230. *Id.*

d. With respect to element 11, “Business Relationships and Alliances, Commissions and Contingent Fees,” the TOS recognized that such arrangements “present independence complexities,” *id.*, and concluded that:

- E&Y’s independence policies “address and provide suitably comprehensive guidance” on business relationships and alliances. *Id.*;

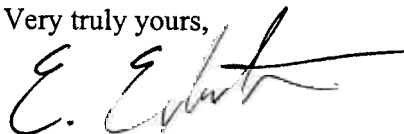
E&Y's "mandatory, monitored independence training program" included portions addressing independence issues relating to business relationships and alliances. *Id.*

E&Y had "established a centralized process requiring review and approval of a business relationship before it is entered into," *id.*, including the following steps:

- A written submission describing the proposed business relationship, *id.*;
- Review of the proposed business relationship by the operating management of the line of business or firm National Office and Office of General Counsel, *id.*;
- Review of the business relationship agreement by the firm's national independence office and/or office of general counsel, *id.*;
- Involvement of the lead audit partner in review of the business relationship proposal before the proposed relationship is consummated, *id.*;
- Any business relationship with an audit client is subject to review under the firm's audit inspection program, *id.*; and
- E&Y's practice with respect to business arrangements involving audit clients was that "the lead audit partner . . . has the ultimate responsibility for ensuring that the Firm's continued independence with respect to the client is not impaired as a result of" the business relationship or alliance, *id.*

This public record information regarding Ernst & Young's independence systems strongly confirms that any issues that may once have existed regarding those systems have been effectively and thoroughly addressed.

Very truly yours,



Eugene R. Erbstoesser
Associate General Counsel